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THE STATUS OF 271 AND UNE-PLATFORM IN THE REGIONAL BELLS' TERRITORIES

Regulatory Update

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- Since our May report, the FCC has granted 271s in four states: Georgia and Louisiana for BellSouth and Maine and New Jersey for Verizon. Applications for seventeen states' 271s are before the FCC now. By year-end we expect all of Verizon to be covered by 271s. We expect Qwest to have 271s in all but one or two states (Minnesota and Arizona being the ones we expect to lag). We expect BellSouth to have all its 271s except Florida. Finally, we expect SBC to add California late in 2002, but do not believe the Ameritech states will get their 271s until the first half of 2003.

- As part of the 271 process, UNE rates since May have been reduced in many states, most notably in the Qwest Region, but also in SBC and BellSouth states. We expect some more UNE reductions (Massachusetts, New Jersey and Pennsylvania are pending for Verizon, for example) but expect the pace to slow given how much UNE rates have decreased and given that the 271 process that drives some of the cuts is nearing its end.

- For the CLECs, the lower UNE rates present the opportunity to enter the local market with minimal up-front investment. It is not clear, however, whether some of the more troubled companies, like WorldCom, will be able to take full advantage. We view UNEP as being positive for the IXCs, particularly AT&T, but do not believe that it is enough to stem the declining revenues and profitability of the consumer long-distance market.

- From the RBOC-investor's perspective, UNEP presents several problems. One is the reduction in revenues that comes from converting retail to wholesale revenues. The other is the pricing compression that comes from the RBOCs' own attempts to restructure their prices to compete with the new entrants. Finally, there is the exposure during a period when an RBOC cannot yet enter long-distance, but the IXCs have begun to enter its local market. Among the RBOCs, SBC is by far the most exposed. In California and in the Ameritech states, it has super-low UNEP prices and no ability to counter an IXC's entry with an all-distance plan. It is possible that Verizon will also see some meaningful share loss in the next few months, but we do not see the IXCs being as focused on it as they are on SBC, particularly in California.

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Ratings

Strong Buy	*Market Outperform*	*Market Perform*	*Market Underperform*
Outperform market near-term and long-term by over 10%	Outperform market long-term by over 10%	Perform in-line with market (+ or – 5%)	Underperform market by over 10%

THE STATUS OF 271 AND UNE-PLATFORM IN THE REGIONAL BELLS' TERRITORIES

Over three months have passed since we last published our report "The Status of 271 and UNE-Platform in the Regional Bells' Territories". Given the recent flood of 271 filings with the FCC and the concomitant changes to UNE-Platform (UNEP) rates made by individual state commissions, we thought it timely to provide an update.

- The flood of applications for in-Region long distance entry under section 271 of the Telecom Act (271) is reaching its crest. Fourteen 271s have been granted to the Regional Bells (RBOCs) so far, and the FCC has applications for seventeen more before it right now: Alabama, Kentucky, Mississippi, North Carolina and South Carolina for BellSouth; Colorado, Idaho, Iowa, Nebraska, North Dakota, Montana, Utah, Washington, and Wyoming for Qwest; New Hampshire, Delaware, and Virginia for Verizon.

- By year-end 2002, we expect 271s to cover all BellSouth states except Florida, all Qwest states except Minnesota and possibly Arizona, and all Verizon states. SBC has a good chance of having California granted by year-end, and a slight chance of having Michigan granted as well, with the rest of the Ameritech states likely to slip into the first half of 2003.

- As the RBOCs have prepared to submit their 271s, they and their state commissions have made changes to their unbundled network element (UNE) prices. While commissions do occasionally change UNE prices independently of the 271 process - as New York did earlier this year and as Massachusetts, New Jersey, Texas and Pennsylvania are doing now—most changes have been made as part of the 271 process. Thus, both because UNE rates have been lowered sharply in most states over the last year and because the 271 process is ending, we expect a slower rate of change to UNE prices over the next year or two than we have seen in the last few months.

- The actual implementation of UNEP accelerated in the last few months, as competitive carriers (CLECs) have focused more on this market. WorldCom's MCI division, in partnership with Z-Tel launched its Neighborhood Plan in April. AT&T has added local UNEP-based service in six states to its original two since March of 2002 and will probably add another two states this year. In early 2002, AT&T was offering UNEP-based local service only in New York and Texas. Since March, it has added Michigan, Georgia, Illinois, Ohio, California, and New Jersey. It has indicated that it will also enter Pennsylvania and Massachusetts this year. We expect it to push hard in California, where it will fight hardest to protect its long-distance market. WorldCom's MCI division introduced its Neighborhood plan in April and appeared ready to pursue entry in at least the urban zones throughout most of the country. Entry by these long-distance carriers (IXCs) has been partly in response to potential entry by the RBOCs into the long distance market in a given state and partly in response to lower UNE prices. Given the financial problems at WorldCom and the changes in AT&T's structure and management as it merges its Broadband unit with Comcast it is somewhat difficult to predict how hard they will push UNEP. We expect some backing off on WorldCom's part, and a harder push in a small number of states on AT&T's.

- At least in theory, the greatest exposure to changes in UNE prices is to SBC. AT&T just began deploying UNEP in California, where SBC will not be able to respond on the long-distance side till around year-end 2002, at best. AT&T is also in Michigan, Illinois, and Ohio, where it is unlikely that SBC will be able to respond on the long-distance side till sometime in the first half of 2003. As we indicate below, UNEP discounts are greatest overall in the SBC Region. BellSouth is seeing UNEP-based entry primarily in Georgia and Florida, but AT&T has not yet entered Florida. Florida is the only state in which we do not expect BellSouth to have a 271 till late first quarter 2003. Qwest's rates have recently dropped in a number of states, so that the Regional average UNEP rate has dropped from $28.21 to $23.97. However, we do not believe that entry into Qwest's territory is a high priority for the IXCs at any price. Verizon's rate at $20.23 is the second lowest on a Regional basis, but that rate is relatively stable vs. May of 2002. It is also worth noting that Verizon has not lost much market share since rates in New York were lowered in January. AT&T has indicated that it will enter Pennsylvania and Massachusetts this year, but neither the timing nor the level of effort in those states is clear to us.

- The Supreme Court has affirmed the FCC's right to designate TELRIC (Total Element Long Run Incremental Cost) as the methodology by which UNE prices are set. More broadly, in its May 2002 Verizon Communications v. FCC decision, the Supreme Court appeared to affirm the FCC's right to designate any method other than rate-of-return, which is specifically precluded by the Telecom Act, for the purpose of setting UNE prices.

- The long-term survival of UNEP is, nevertheless, in question. In its May 2002 Verizon decision, the Supreme Court reaffirmed the "necessary and impair" standard, which it had already highlighted in its January 1999 Iowa Utilities Board v. FCC decision. On May 24th, in its USTA v. FCC decision, the D.C. Circuit of Appeals remanded to the FCC the 1999 UNE order in which the FCC attempted to refine the list of required UNEs in accordance with the Supreme Court's "necessary and impair" standard. The D.C. Circuit also vacated the FCC's line-sharing order. The FCC has appealed back to the full D.C. Circuit some aspects of the court's decision.

- All of these judicial decisions will have an impact on the triennial review which was initiated by the FCC in December of 2001 to decide which UNEs still meet the "necessary and impair" test. The triennial review was expected to conclude this year. If the D.C. Circuit does accept the FCC's appeal, we believe it is unlikely that the FCC will issue an order in the triennial review till after the court rules, most likely some time next spring. Aside from delaying the conclusion, the various court decisions are likely to drive the FCC toward a more granular analysis than it had done in the past. That was the bent of the current FCC anyway, but the D.C. decision reinforces it. For example, we would not be surprised to see switching removed as an element in some markets fairly quickly and in others over some longer transition period. Other elements also might be removed over time in some geographic and customer markets. If the FCC decides to take granularity down to the wire-center level, it may leave actual implementation in the hands of the states, but with fairly tight rules to guide that implementation. In the context of UNEP, what is significant about the removal of an individual element is that it makes it necessary for the CLEC to do some work to reassemble the line when it inserts its own equipment. That will make it more difficult to move large numbers of customers rapidly. Thus, the timing and outcome of the triennial review is very important both to the CLECs/IXCs who use UNEP and to the RBOCs who are wholesaling lines to those CLECs/IXCs at deep discounts.

- The actual financial impact of UNEP on either the RBOCs or their competitors is, of course, what investors care about. Unfortunately, it is difficult to quantify because it depends so much on the companies' strategies. The more CLECs are able to cream-skim in a given market, the better their own margins and the greater the damage to the RBOC. The CLECs' ability to cream-skim, in turn, depends not only on the CLECs' own strategies, but on the RBOCs' win-back efforts, which often include the introduction of new pricing plans and the RBOCs' ability to offer all-distance plans. Thus, damage to the RBOCs' financials comes not only from the conversion of retail revenues to wholesale revenues, but from a broader repricing in response to competition. The offset from long distance appears to be fairly minor, at this point. Although ultimately all-distance customers may be "stickier" than those who use only one service, initially both sides are likely to spend more on marketing to fight churn than they did before.

- Our May 1, 2002 report included one effort at such an analysis. It found that UNEP creates a discount of about 19% to 42% below retail residential revenue. Using the same retail rates, those discounts would now range from 24% to 50%. Another way to look at the issue is to use the FCC's rate reference book, which relies, in turn, on TNS bill-harvesting data. According to this data, average residential spending per household on local service is $426 per year and on long-distance $176 per year. Assuming 1.2 lines per household, that would equate to about $30 per line in local revenue plus about $4 per line in access charges for a total revenue per line of about $33-$34. That figure falls within the range of $30-$34 for retail consumer revenue that we had estimated in May, although both calculations present potential problems. For the TNS data, specifically, it is not clear whether taxes and Universal Service Fund contributions which an RBOC would simply pass through to the government are included in the revenue. With that caveat, we are using $33.50 as a national average residential rate. That leads to UNEP discounts on a Region-wide basis of 27% in BellSouth, 28% in Qwest, 48% in SBC, and 40% in Verizon. The TNS numbers also indicate that the RBOC would need to gain more than three long-distance customers to make up for the revenues from any local customer it loses ($474 of local plus access revenue vs. $128 of long-distance revenue net of access). And—given the different margin structures of the industries—it needs more than that to make up for the lost cash flow. Of course, to the extent that an IXC can capture small business customers whose retail spending is higher than that of consumers, the damage to the RBOC is greater. For some time, at least, while the industry restructures itself into an "all distance" market, the UNEP vs. 271 game is likely to be "negative-sum," with both the RBOCs' and IXCs' profits hurt by lower revenue and higher marketing costs.

APPENDIX

[illegible]

Changes in methodology and corrections of errors:

- We changed our MOU (minutes of use) assumption from 1200 to 1411, to account for toll minutes, based on footnote 252 of the FCC's Pennsylvania order.

- For the columns that calculate full UNEP based on DEM (dial-equipment minutes), there is no change. Thus, for comparison, we are showing full UNEP based on DEM for both May and August in our tables.

- We corrected an error in the formula that calculated amortized non-recurring charges for Verizon's MA, NH, NY, DE, PA. For NV, KS, MO, OK and TX, we now have some non-recurring charges that we did not have in our last iteration. For Maryland, we are no longer using the compliance rates that we used in May. Statewide loop rate averages charged in several BellSouth, Qwest and Verizon states, though the actual rates did not, based on new estimates of the distributions of lines per zone: KY, LA, MS, SC, NM, ME, RI, PA.

- Once we assemble our data, we ask all the relevant state commissions, RBOCs and the two major IXCs to comment on its accuracy. We received specific feedback on the accuracy of our tables from all the RBOCs and many states.

[illegible]

- UNE prices continue to trend down.

- For all RBOCs the full UNEP average (assuming DEM) dropped by 10% from that which we reported in May.

- On a national basis, full UNEP average (assuming DEM) now stands at $20.28 vs. the $22.58 average we reported in May.

- The range is a high of $24.38 for BellSouth and a low of $17.50 for SBC, within the range we predicted in our May report.

- SBC experienced a roughly 20% decline (with an even sharper decline in California) and Qwest experienced a roughly 15% decline in full UNEP (DEM) average since our May report.

- The RBOC-wide total switching and transport average dropped 21%, from the $8.34 we reported in May to $6.59 in August.

- Several states' full UNEP (DEM) price appear to increase or actually increased from that which we reported in May. In some cases, as noted above, we changed the non-recurring formula. In some cases we changed the distribution of loops among zones, thus changing the average. In a few cases, rates actually rose. In AL, FL, LA, MS and SC, there is now a cross-connect charge that is part of the non-recurring charges that we amortize. In Oregon, the port rate increased slightly.

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COMPANIES MENTIONED IN THIS REPORT

Company Name	**Symbol**	**Price**
BellSouth	BLS	$25.44
SBC	SBC	$27.89
Qwest	Q	$2.82
Verizon	VZ	$31.18
AT&T	T	$11.79
WorldCom's MCI	WCOEQ	$0.12
Z-Tel	ZTEL	$1.44
Comcast	CMCSK	$22.99
Dow Jones Industrial	DJIA	8,887.87
S&P 500 Stock Index	SPX	941.06

Exhibit 1 [illegible] Comparison Matrix Summary – All RBOCs

RBOC Regionwide Averages	ACCESS LINES (000s)	% OF TOTAL ACCESS LINES	LOOP RATE (per month)	TOTAL SWITCHING AND TRANSPORT (per month)	TOTAL SWITCHING AND TRANSPORT (per month)	ALL OTHER (per month)	ALL OTHER (per month)	FULL UNEP ORIGINATING AND TERMINATING	FULL UNEP ORIGINATING AND TERMINATING	MAY 2002 FULL UNEP ORIGINATING AND TERMINATING
				Assumes 1411 originating minutes	Assumes DEM minutes	Assumes 1411 originating minutes	Assumes DEM minutes	Assumes 1411 originating minutes	Assumes DEM minutes	Assumes DEM minutes
			KEY INPUTS	SUBTOTALS				TOTALS		
Average, All RBOCS	**145,078**	**100%**	**$13.04**	**$7.28**	**$6.59**	**$0.62**	**$0.66**	**$20.94**	**$20.28**	**$22.58**
High			$16.60	$8.42	$6.97	$1.62	$2.02	$23.58	$24.18	$28.21
RBOC			Q	VZ	Q	BLS	BLS	Q	BLS	Q
Low			$11.03	$5.92	$5.91	$0.19	$0.18	$18.30	$17.50	$19.81
RBOC			SBC	BLS	SBC	VZ	VZ	SBC	SBC	VZ
BellSouth Regionwide Avg.	**24,052**	**17%**	**$15.42**	**$5.92**	**$6.95**	**$1.61**	**$2.01**	**$22.94**	**$24.38**	**$26.06**
High			$22.37	$6.78	$8.77	$2.63	$3.11	$29.34	$29.82	$36.09
State			MS	NC	GA	FL	FL	MS	MS	AL
Low			$12.55	$4.30	$5.31	$0.99	$1.18	$19.48	$20.88	$20.90
State			GA	TN	TN	KY	MS	TN	TN	TN
Qwest Regionwide Avg.	**17,961**	**12%**	**$16.60**	**$7.55**	**$6.97**	**$0.43**	**$0.40**	**$24.58**	**$23.97**	**$28.21**
High			$23.98	$12.22	$10.25	$0.75	$0.70	$34.95	$34.64	$39.98
State			MT	SD	SD	OR	OR	MT	MT	MT
Low			$13.43	$5.13	$4.44	$0.18	$0.18	$20.65	$20.54	$22.17
State			UT	NM	NM	IA	IA	UT	UT	OR
SBC Regionwide Avg.	**58,138**	**40%**	**$11.03**	**$6.67**	**$5.91**	**$0.60**	**$0.55**	**$18.30**	**$17.50**	**$21.54**
High			$20.52	$13.34	$10.13	$2.90	$2.82	$33.84	$30.63	$30.54
State			NV	NV	WI	WI	WI	NV	NV	NV
Low			$7.01	$3.85	$3.21	$0.03	$0.02	$12.20	$12.05	$14.50
State			OH	IN	IN	IN	IN	IN	IN	MI
AMERITECH Region Avg.	21,841	38%	$9.21	$6.42	$5.94	$0.65	$0.58	$16.28	$15.73	$16.32
High			$10.90	$12.22	$10.13	$2.90	$2.82	$25.07	$23.85	$23.85
State			WI	WI	WI	WI	WI	WI	WI	WI
Low			$7.01	$3.85	$3.21	$0.03	$0.02	$12.20	$12.05	$14.50
State			OH	IN	IN	IN	IN	IN	IN	MI
PACIFIC BELL Region Avg.	19,001	33%	$10.15	$6.90	$5.54	$0.08	$0.08	$17.13	$15.72	$27.54
High			$20.52	$13.34	$10.02	$0.08	$0.08	$33.84	$30.63	$30.54
State			NV	NV	NV	CA, NV	CA, NV	NV	NV	NV
Low			$9.93	$6.77	$5.44	$0.08	$0.08	$16.78	$15.46	$23.47
State			CA	CA	CA	CA, NV	CA, NV	CA	CA	CA
SWBT Region Avg.	17,296	30%	$14.31	$6.73	$6.29	$1.10	$1.02	$22.14	$21.63	$21.54
High			$15.77	$8.45	$8.03	$1.32	$1.30	$25.53	$25.01	$24.88
State			OK	OK	OK	OK	OK	OK	OK	OK
Low			$11.69	$5.35	$5.26	$0.27	$0.27	$20.13	$19.60	$19.49
State			AR	AR,KS	KS	MO	MO	AR	KS	KS
Verizon Regionwide Avg.	**44,927**	**31%**	**$12.93**	**$8.69**	**$7.12**	**$0.19**	**$0.18**	**$21.82**	**$20.23**	**$19.81**
High			$24.58	$20.82	$19.32	$0.69	$0.66	$45.52	$44.02	$44.02
State			WV	WV	WV	DE	DE	WV	WV	WV
Low			$9.52	$6.41	$5.25	$0.00	$0.00	$17.15	$15.34	$15.14
State			NJ	NY	PA	DC	DC	NJ	NJ	NJ
NYNEX Region Avg.	19,487	43%	$12.92	$8.13	$6.82	$0.13	$0.12	$21.18	$19.85	$20.36
High			$18.30	$12.91	$10.54	$0.46	$0.38	$28.08	$27.42	$29.77
State			NH	MA	VT	NH	NH	MA	MA	NH
Low			$11.49	$6.41	$5.59	$0.04	$0.03	$17.98	$17.17	$17.35
State			NY	NY	NY	RI,VT	RI,VT	NY	NY	NY
BELL ATLANTIC Region Avg.	25,439	57%	$12.95	$9.11	$7.35	$0.24	$0.22	$22.31	$20.52	$19.39
High			$24.58	$20.82	$19.32	$0.69	$0.66	$45.52	$44.02	$44.02
State			WV	WV	WV	DE	DE	WV	WV	WV
Low			$9.52	$6.49	$5.25	$0.00	$0.00	$17.15	$15.34	$15.14
State			NJ	PA	PA	DC	DC	NJ	NJ	NJ

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports. CCMI estimates

[illegible] COMPARATIVE MATRIX SUMMARY – ALL RBOCS

RBOC Regionwide Averages		LOOP RATE (per month)	PORT RATE (per month)	Local originating SWITCHING (per MOU)	Local terminating SWITCHING (per MOU)	OTHER SWITCHING AND TRANSPORT (per MOU)	DUF (per month)	DUF (per month)	Other Switching and Transport (per month)	Other Switching and Transport (per month)	FEATURE COST (per month)	AMORTIZED NRC (per month)	TOTAL DEM (per line, per month)
							Assumes [illegible] originating minutes	Assumes DEM minutes	Assumes [illegible] originating minutes	Assumes DEM minutes			
		KEY INPUTS					SUBTOTALS						
Average, All RBOCs		$13.04	$2.02	$0.001663	$0.001547	$0.000675	$0.45	$0.48	$0.95	$0.82	$0.33	$0.17	2,171
	High	$16.60	[illegible]	[illegible]	$0.002199	$0.001036	$1.36	$1.86	$1.46	$1.32	$0.61	$0.23	3,168
	RBOC	Q	SBC	VZ	VZ	Q	BLS	BLS	Q	Q	BLS	SBC	BLS
	Low	$11.03	$1.11	$0.001150	$0.001150	$0.000517	$0.06	$0.05	$0.73	$0.56	$0.20	$0.13	1,871
	RBOC	SBC	Q	SBC	SBC	BLS	VZ	VZ	BLS	VZ	VZ	Q, VZ	VZ
BellSouth Regionwide Avg.		$15.42	$1.73	$0.001151	$0.001151	$0.000517	$1.46	$1.86	$0.73	$0.93	$0.61	$0.13	3,168
	High	$22.37	$2.80	$0.001868	$0.001868	$0.000782	[illegible]	[illegible]	$1.10	$1.36	[illegible]	[illegible]	3,571
	State	MS	SC	LA	LA	KY	FL	FL	KY	KY	FL	NC	GA
	Low	$12.55	$1.15	$0.000703	$0.000703	$0.000408	$0.88	$1.03	$0.58	$0.80	$0.00	$0.06	2,754
	State	GA	KY	AL	AL	AL	NC	MS	AL	AL	AL, GA, KY, LA	KY	MS
Qwest Regionwide Avg.		$16.60	$1.41	$0.001731	$0.001731	$0.001036	$0.30	$0.28	$1.46	$1.32	$0.40	$0.13	2,229
	High	[illegible]	[illegible]	[illegible]	$0.003369	$0.001301	$0.39	$0.46	$1.81	$1.66	$1.76	$0.36	2,917
	State	MT	WY	SD	SD	MN	MN, ND, OR	ND	MN	MN	UT	OR	ND
	Low	$13.43	$0.93	$0.000000	$0.000000	$0.000721	$0.00	$0.00	$1.07	$0.81	$0.00	$0.00	2,001
	State	UT	UT	UT	UT	NM	IA	IA	NM	NM	CO, IA, ID, MN, [illegible]	MN	SD
SBC Regionwide Avg.		$11.03	$2.49	$0.001150	$0.001150	$0.000746	$0.36	$0.32	$1.05	$0.81	$0.29	$0.23	1,974
	High	[illegible]	[illegible]	[illegible]	[illegible]	$0.005108	$1.06	$1.07	[illegible]	[illegible]	$0.90	[illegible]	[illegible]
	State	NV	WI	OK	OK	NV	AK, KS, OK, TX	AK	NV	NV	CA	WI	AR
	Low	$7.01	$0.88	$0.000000	$0.000000	$0.000799	$0.00	$0.00	[illegible]	$0.38	$0.00	$0.01	1,761
	State	OH	CA	IL, IN	IL, IN	TX	CA, NV, MO	CA, NV, MO	TX	TX	IL, IN, OH, MI, WI	IN	IL
AMERITECH Region Avg		$9.21	$4.20	$0.000436	$0.000436	$0.000810	$0.27	$0.20	$1.14	$0.88	$0.00	$0.18	1,906
	High	$10.90	[illegible]	[illegible]	$0.001319	[illegible]	[illegible]	$0.27	$1.76	$1.36	n.a	[illegible]	2,097
	State	WI	WI	WI	WI	WI	WI	OH	WI	WI	n.a	WI	OH
	Low	$7.01	[illegible]	$0.000000	$0.000000	$0.000548	[illegible]	$0.01	[illegible]	$0.58	n.a	$0.01	1,761
	State	OH	MI	IL, IN	IL, IN	MI	IN	IN	MI	MI	n.a	IN	IL
PACIFIC BELL Region Avg		$10.15	$0.90	$0.001482	$0.001482	$0.001036	$0.00	$0.00	$1.46	$1.07	$0.88	$0.08	1,813
	High	[illegible]	[illegible]	$0.001610	$0.001610	$0.005308	n.a	n.a	$7.63	[illegible]	$0.90	$0.08	1,814
	State	NV	NV	NV	NV	NV	n.a	n.a	NV	NV	CA	CA, NV	CA
	Low	[illegible]	$0.88	[illegible]	$0.001380	$0.000911	n.a	n.a	$1.13	$0.98	$0.00	$0.08	1,786
	State	CA	CA	CA	CA	CA	n.a	n.a	CA	CA	NV	CA, NV	NV
SWBT Region Avg		$14.31	$2.08	$0.001688	$0.001688	$0.000345	$0.89	$0.81	$0.49	$0.44	$0.00	$0.21	2,237
	High	[illegible]	[illegible]	[illegible]	[illegible]	$0.000389	$1.06	[illegible]	$0.69	$0.61	$0.00	$0.31	[illegible]
	State	OK	TX	OK	OK	OK	AR, KS, OK, TX	AR	OK	OK	n.a	OK	AR
	Low	[illegible]	$1.61	[illegible]	$0.001190	$0.000799	$0.00	$0.00	[illegible]	$0.38	$0.00	$0.18	2,115
	State	AR	AR, KS	AR, KS	AR, KS	TX	MO	MO	TX	TX	n.a	TX	KS
Verizon Regionwide Avg.		$12.93	$1.79	$0.002575	$0.002199	$0.000523	$0.06	$0.05	$0.74	$0.56	$0.20	$0.13	1,871
	High	[illegible]	[illegible]	$0.008868	[illegible]	$0.001510	[illegible]	$0.35	$2.17	$1.65	$1.36	$0.56	[illegible]
	State	WV	NY	WV	WV	MA	NH	NH	MA	MA	MD	DE	WV
	Low	[illegible]	$0.71	[illegible]	$0.001111	$0.000162	$0.00	$0.00	$0.23	$0.16	$0.00	$0.00	1,317
	State	NJ	NH	NY	NY	VA	NY, DC	NY, DC	VA	NJ	ME, MA, DC, DE	RI, VT, DC	DC
NYNEX Region Avg		$13.05	$2.24	$0.001832	$0.001804	$0.000875	$0.03	$0.03	$1.24	$0.95	$0.17	$0.09	1,908
	High	$20.96	[illegible]	[illegible]	[illegible]	$0.001510	[illegible]	$0.35	$2.17	$1.65	[illegible]	$0.15	2,009
	State	NH	NY	VT	VT	MA	NH	NH	MA	MA	RI	MA	VT
	Low	$11.49	$0.71	[illegible]	$0.001111	$0.000578	$0.00	$0.00	$0.82	$0.63	$0.00	$0.00	1,820
	State	NY	NH	NY	NY	NY	NY	NY	NY	NY	ME, MA	RI, VT	MA
BELL ATLANTIC Region Avg		$12.95	$1.45	$0.003144	$0.002501	$0.000253	$0.09	$0.06	$0.36	$0.27	$0.22	$0.16	1,842
	High	[illegible]	[illegible]	$0.008868	$0.005622	$0.000696	[illegible]	$0.12	$0.98	$0.20	$1.36	[illegible]	[illegible]
	State	WV	DE	WV	WV	DC	DE, WV	WV	DC	WV	MD	DE	WV
	Low	$9.57	$0.73	[illegible]	$0.001615	$0.000162	$0.00	$0.00	$0.23	$0.16	$0.00	$0.00	1,317
	State	NJ	NJ	PA	PA	VA	DE	DC	VA	NJ	DC, DE, NJ	DC, NJ, WV	DE

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports, CCMI estimates

[illegible] COMPARISON MATRIX SUMMARY – BELLSOUTH

STATE	DENSITY ZONES	ACCESS LINES (000)	% of TOTAL ACCESS LINES	LOOP RATE (per month)	TOTAL SWITCHING AND TRANSPORT (per month) Assumes 1+1+ originating minutes	TOTAL SWITCHING AND TRANSPORT (per month) Assumes DEM minutes	ALL OTHER (per month) Assumes 1+1+ originating minutes	ALL OTHER (per month) Assumes DEM minutes	FULL UNEP ORIGINATING AND TERMINATING Assumes 1+1+ originating minutes	FULL UNEP ORIGINATING AND TERMINATING Assumes DEM minutes	MAY 2002 FULL UNEP ORIGINATING AND TERMINATING Assumes DEM minutes
				KEY INPUT	SUBTOTALS				TOTALS		
Alabama	Avg	[illegible]	8%	$16.66	$4.55	$5.16	$7.07	$1.43	$22.28	$23.55	$36.09
	1			$17.55							
	2			$20.04							
	3			$33.65							
Florida	Avg	6,514	22%	$15.55	$6.03	$6.55	$7.63	$3.11	$24.21	$25.21	$26.18
	1			$11.77							
	2			$15.89							
	3			$30.20							
Georgia	Avg	4,215	17%	$12.55	$6.61	$8.77	$1.77	$2.51	$20.93	$23.83	$23.83
	1			$10.80							
	2			$12.47							
	3			$19.83							
Kentucky	Avg	1,232	5%	$12.26	$5.21	$6.53	$0.99	$1.29	$23.46	$25.08	$23.36
	1			$9.64							
	2			$14.37							
	3			[illegible]							
Louisiana	Avg	[illegible]	10%	$16.24	$6.63	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	1			[illegible]							
	2			[illegible]							
	3			$48.26							
Mississippi	Avg	[illegible]	6%	[illegible]	$5.90	$6.78	[illegible]	$1.28	[illegible]	[illegible]	$29.01
	[illegible]			$10.98							
				[illegible]							
	3			[illegible]							
	4			$43.68							
North Carolina	Avg	[illegible]	10%	[illegible]	$6.78	$7.64	[illegible]	[illegible]	$22.06	$23.09	$27.00
	1			[illegible]							
	2			[illegible]							
	3			[illegible]							
South Carolina	Avg	[illegible]	6%	$12.51	[illegible]	[illegible]	$1.08	$1.26	$23.74	$24.58	$26.93
	1			$13.76							
	2			$20.38							
	3			[illegible]							
Tennessee	Avg	[illegible]	11%	[illegible]	$4.30	$5.32	$1.07	$1.45	$19.48	$20.88	$20.90
	1			$12.48							
	2			$16.31							
	3			[illegible]							

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports, CCMI estimates

[illegible] Rate Comparison Matrix Summary — BellSouth

STATE	LOOP RATE (per month)	PORT RATE (per month)	LOCAL ORIGINATING SWITCHING (per MOU)	LOCAL TERMINATING SWITCHING (per MOU)	OTHER SWITCHING AND TRANSPORT (per MOU)	DUF (per month) Assumes 1411 originating minutes	DUF (per month) Assumes DEM minutes	Other Switching and Transport (per month) Assumes 1411 originating minutes	Other Switching and Transport (per month) Assumes DEM minutes	FEATURE COST (per month)	AMORTIZED NRC (per month)	TOTAL DEM (per line, per month)
	KEY INPUTS					SUBTOTALS						
Alabama	$16.66 $11.55 $20.04 $11.65	[illegible]	[illegible]	[illegible]	$0.000108	[illegible]	$1.[illegible]8	$0.58	$0.80		$0.15	3.111
Florida	$15.55 $11.[illegible] $15.80 $30.20	$1.17	[illegible]	[illegible]	$0.000505	$2.15	$2.04	$0.71	$0.8[illegible]	$2.76	$0.1[illegible]	2.960
Georgia	$12.55 $10.80 $12.42 $19.83	$1.79	$0.001633	$0.001233	$0.000559	$1.66	$2.40	[illegible]	$1.11	$0.00	$0.13	1.57[illegible]
Kentucky	$12.76 $9.61 $11.1[illegible] [illegible]	$1.15	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$1.10	$1.16	$0.00	$0.06	[illegible]
Louisiana	$16.23 [illegible] $22.10 $18.56	$1.36	$0.001868	$0.001868	$0.000165	$0.50	[illegible]	$0.66	$0.81	$0.00	$0.14	3.05[illegible]
Mississippi	[illegible] $10.68 $15.91 $25.01 $14.66	$2.61	[illegible]	[illegible]	$0.000513	[illegible]	$1.0[illegible]	[illegible]	$0.81		$0.15	[illegible]51
North Carolina	$14.18 $10.75 $19.05 $30.33	[illegible]	[illegible]	[illegible]	$0.000561	$0.88	$1.05	[illegible]	$0.91	$0.00	[illegible]	[illegible]
South Carolina	$16.51 $13.76 $20.48 $26.01	$2.80	[illegible]	[illegible]	$0.000534	$0.93	$1.11	[illegible]	$0.90		$0.15	[illegible]
Tennessee	$14.12 $17.48 $16.31 $21.32	$1.70	$0.000801	$0.000801	[illegible]	$0.98	$1.36	$0.61	$0.85	$0.00	$0.09	3.138

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports, CCMI estimates

STATE	DENSITY ZONES	ACCESS LINES (000s)	% of TOTAL ACCESS LINES	LOOP RATE (per month) KEY INPUT	TOTAL SWITCHING AND TRANSPORT (per month) Assumes 1411 originating minutes	TOTAL SWITCHING AND TRANSPORT (per month) Assumes DEM minutes	ALL OTHER (per month) Assumes 1411 originating minutes	ALL OTHER (per month) Assumes DEM minutes	FULL UNEP ORIGINATING AND TERMINATING Assumes 1411 originating minutes	FULL UNEP ORIGINATING AND TERMINATING Assumes DEM minutes	MAY 2002 FULL UNEP ORIGINATING AND TERMINATING Assumes DEM minutes
					SUBTOTALS				TOTALS		
Arizona	Avg	3,002	17%	$15.85	$10.05	$8.80	$0.36	$0.33	$26.26	$24.98	$16.67
	1			$5.91							
	2			$12.3[illegible]							
	3			$32.74							
Colorado	Avg	2,050	16%	$15.86	$6.82	$6.12	$0.15	$0.40	$23.12	$23.38	$23.95
	1			$5.91							
	2			$12.33							
	3			$32.74							
Idaho	Avg	585	3%	$20.37	$6.91	$5.96	$0.50	$0.44	$27.85	$26.82	$15.14
	1			$15.82							
	2			$24.02							
	3			$40.92							
Iowa	Avg	1,165	6%	$16.27	$7.22	$6.81	$0.18	$0.18	$23.87	$23.35	$28.80
	1			$13.11							
	2			$15.64							
	3			$27.27							
Minnesota	Avg	2,181	11%	$17.87	$7.38	$6.80	$0.39	$0.35	$25.64	$25.05	$25.07
	1			$8.81							
	2			$12.33							
	3			$14.48							
	4			$21.97							
Montana	Avg	301	2%	$23.38	$10.25	$10.15	$0.75	$0.71	$34.35	$34.61	$19.98
	BRA			$23.70							
	1			$23.90							
	2			$22.[illegible]							
	3			$29.59							
Nebraska	Avg	508	3%	$17.57	$8.69	$8.80	$0.31	$0.31	$26.51	$26.65	$10.80
	1			$17.24							
	2			$28.[illegible]							
	3			$67.70							
New Mexico	Avg	851	5%	$21.27	$5.11	$4.13	$0.48	$0.42	$27.03	$26.39	$25.91
	1			$17.[illegible]							
	2			$20.30							
	3			$26.74							
North Dakota	Avg	556	2%	$17.73	$8.50	$10.01	$0.57	$0.63	$26.95	$28.13	$33.74
	1			$14.78							
	2			$24.97							
	3			$56.44							
Oregon	Avg	1,555	8%	$15.00	$7.27	$6.50	$0.75	$0.76	$23.03	$22.50	$22.17
	1			$13.95							
	2			$25.20							
	3			$56.[illegible]							
South Dakota	Avg	272	2%	$21.09	$12.27	$10.25	$0.41	$0.37	$33.77	$31.71	$32.58
	1			$17.02							
	2			$18.74							
	3			$24.37							
Utah	Avg	1,240	6%	$13.43	$6.95	$6.85	$0.77	$0.75	$20.67	$20.51	$20.69
	urban			$11.4[illegible]							
	suburban			$13.83							
	rural			$19.[illegible]							
Washington	Avg	2,642	15%	$14.37	$5.87	$5.86	$0.56	$0.50	$20.78	$20.77	$23.00
	1			$6.41							
	2			$11.35							
	3			$12.76							
	4			$14.32							
	5			$19.06							
Wyoming	Avg	224	1%	$23.38	$8.53	$7.92	$0.56	$0.52	$32.67	$31.65	$17.45
	BRA			$19.97							
	1			$26.94							
	2			$30.13							
	3			$40.98							

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports. CCMI estimates

EXHIBIT 5A [illegible] COMPARISON MATRIX SUMMARY – QWEST

STATE	LOOP RATE (per month)	PORT RATE (per month)	Local originating SWITCHING (per MOU)	Local terminating SWITCHING (per MOU)	OTHER SWITCHING AND TRANSPORT (per MOU)	DUF (per month)	DUF (per month)	Other Switching and Transport (per month)	Other Switching and Transport (per month)	FEATURE COST (per month)	AMORTIZED NRC (per month)	TOTAL DEM (per month, per line)
						Assumes 1411 originating minutes	Assumes DEM minutes	Assumes 1411 originating minutes	Assumes DEM minutes			
	KEY INPUTS					SUBTOTALS						
Arizona	[illegible] $5.91 $12.3[illegible] $1[illegible].74	[illegible]	$0.00[illegible]	[illegible]	[illegible]	$0.26	[illegible]	[illegible]	[illegible]	$0.00	$0.10	[illegible]
Colorado	[illegible] $5.91 $12.3[illegible] $32.74	[illegible]	$0.001610	$0.00[illegible]610	$0.0009[illegible]	$0.31	$0.27	$1.31	$1.11	$0.00	$0.13	[illegible]
Idaho	$20.4[illegible] $15.8[illegible] $24.0[illegible] $40.92	$1.3[illegible]	$0.001733	$0.00[illegible]	$0.0009[illegible]	$0.3[illegible]	$0.26	$1.31	$1.08	$0.00	$0.18	[illegible]
Iowa	$16.47 [illegible] $15.64 $27.37	[illegible]	$0.001929	[illegible]	$0.0009[illegible]	$0.00	$0.00	$1.31	$1.[illegible]	$0.00	$0.18	[illegible]
Minnesota	$17.87 $8.81 $12.33 $1[illegible].48 [illegible]	[illegible]	$0.0018[illegible]0	$0.00[illegible]810	$0.0011[illegible]	$0.19	$0.15	$[illegible].81	$1.66	$0.00	$0.00	[illegible]
Montana	$23.98 [illegible] $[illegible].90 [illegible] [illegible]	[illegible]	$0.00[illegible]	$0.00[illegible]	$0.0009[illegible]	$0.15	$0.11	$[illegible].31	$1.[illegible]	$0.3[illegible]	$0.77	[illegible]
Nebraska	[illegible] $1[illegible] $28.1[illegible] $62.50	[illegible]	$0.001989	$0.00[illegible]989	$0.0009[illegible]	$0.39	$0.30	$[illegible].31	$1.33	$0.00	$0.07	[illegible]
New Mexico	[illegible] $12.75 $20.30 $26.33	[illegible]	$0.001108	$0.00[illegible]108	$0.0007[illegible]	$0.11	$0.25	[illegible]	$0.83	$0.00	$0.17	[illegible]
North Dakota	[illegible] $14.78 $24.9[illegible] $56.13	[illegible]	[illegible]	[illegible]	[illegible]	$0.19	$0.46	$[illegible].31	$1.56	$0.00	$0.18	[illegible]
Oregon	$15.00 $13.95 $25.20 $56.[illegible]	[illegible]	$0.001336	$0.00[illegible]336	$0.001178	$0.19	$0.13	$1.66	$1.11	$1.06	$0.36	[illegible]
South Dakota	[illegible] $17.0[illegible] $18.54 $24.37	[illegible]	$0.001169	[illegible]	$0.0012[illegible]6	$0.25	$0.20	$1.81	$1.37	$0.00	$0.17	[illegible]
Utah	[illegible] [illegible] $13.83 [illegible]	$0.[illegible] $0.9[illegible] $0.90 $[illegible].02	$0.00[illegible]	$0.00[illegible]	$0.000896	$0.18	$0.36	$1.26	$1.16	$1.76	$0.09	[illegible]
Washington	[illegible] $6.41 [illegible] [illegible] [illegible] [illegible]	[illegible]	$0.001[illegible]	$0.00[illegible]	$0.0011[illegible]	$0.19	$0.19	$1.57	$1.56	$0.00	[illegible]	[illegible]
Wyoming	$23.58 $19.91 $26.94 $30.13 $40.98	[illegible]	$0.001853	$0.00[illegible]853	$0.0009[illegible]	$0.19	$0.35	$[illegible].31	$1.17	$0.00	$0.28	[illegible]

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports. CCMI estimates

STATE	DENSITY ZONES	ACCESS LINES (000s)	% of TOTAL ACCESS LINES	LOOP RATE (per month)	TOTAL SWITCHING AND TRANSPORT (per month)	TOTAL SWITCHING AND TRANSPORT (per month)	ALL OTHER (per month)	ALL OTHER (per month)	FULL UNEP ORIGINATING AND TERMINATING	FULL UNEP ORIGINATING AND TERMINATING	May 2002 FULL UNEP ORIGINATING AND TERMINATING
					Assumes 1411 originating minutes	Assumes DEM minutes	Assumes 1411 originating minutes	Assumes DEM minutes	Assumes 1411 originating minutes	Assumes DEM minutes	Assumes DEM minutes
				KEY INPUT	SUBTOTALS				TOTALS		
ILEC - Ameritech											
Illinois	wtd. avg.	[illegible]	13%	$9.51	$6.35	$5.96	$0.41	$0.31	$16.28	$15.81	$15.96
	metro			$2.59							
	suburban			$7.07							
	rural			$11.40							
Indiana	wtd. avg.	2,396	4%	$8.37	$3.85	$3.75	$0.03	$0.03	$12.26	$12.05	$16.87
	metro			$8.03							
	suburban			$8.15							
	rural			$8.99							
Michigan	wtd. avg.	5,639	10%	$10.16	$4.59	$4.09	$0.30	$0.25	$15.06	$14.50	$14.50
	metro			$8.47							
	suburban			$8.73							
	rural			$12.51							
Ohio	wtd. avg.	4,306	7%	$7.05	$7.80	$7.45	$0.64	$0.50	$15.45	$14.93	$14.96
	urban			$5.91							
	suburban			$7.07							
	rural			$9.57							
Wisconsin	wtd. avg.	[illegible]	4%	$10.90	$11.27	$10.13	$3.00	$2.82	$25.07	$23.85	$23.85
	suburban			$10.90							
	rural			$18.90							
ILEC - Pacific Bell											
California	wtd. avg.	18,6[illegible]	[illegible]	$9.93	[illegible]	[illegible]	$0.08	$0.08	$16.28	$15.16	$17.17
	1			$8.39							
	2			[illegible]							
	3			$19.63							
Nevada	wtd. avg.	[illegible]	1%	[illegible]	$11.21	$10.07	$0.08	$0.08	$11.81	$10.63	$10.54
	urban			[illegible]							
	suburban			[illegible]							
	rural			[illegible]							
ILEC - Southwestern Bell											
Arkansas	wtd. avg.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$1.29	[illegible]	$20.13	$19.96	$19.82
	urban			[illegible]							
	suburban			[illegible]							
	rural			[illegible]							
Kansas	wtd. avg.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$1.30	$1.15	$20.35	$19.60	$19.49
	urban			[illegible]							
	suburban			[illegible]							
	rural			[illegible]							
Missouri	wtd. avg.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$0.27	$0.27	[illegible]	[illegible]	[illegible]
	urban			[illegible]							
	suburban			$18.63							
	rural			$19.21							
	MO-Sprgfld			$16.3[illegible]							
Oklahoma	wtd. avg.	1,31[illegible]	[illegible]	$15.[illegible]	$8.45	$8.03	$1.37	$1.30	$25.51	$25.03	$24.88
	urban			[illegible]							
	suburban			$13.65							
	rural			$36.25							
Texas	wtd. avg.	10,338	18%	[illegible]	$6.36	$5.98	$1.24	$1.14	$21.71	[illegible]	$21.16
	urban			[illegible]							
	suburban			$13.65							
	rural			$18.98							

Source: Company Financial reports, and regulatory filings including tariffs, interconnection agreements and ARMIS reports, CCMI estimates

Exhibit [illegible] Rate Comparison Matrix Summary – SBC

STATE	LOOP RATE (per month)	PORT RATE (per month)	Local originating SWITCHING (per MOU)	Local terminating SWITCHING (per MOU)	OTHER SWITCHING AND TRANSPORT (per MOU)	DUF (per month) Assumes [illegible] originating minutes	DUF (per month) Assumes DEM minutes	Other Switching and Transport (per month) Assumes [illegible] originating minutes	Other Switching and Transport (per month) Assumes DEM minutes	FEATURE COST (per month)	AMORTIZED NRC (per month)	TOTAL DEM (per month, per line)
	KEY INPUTS					SUBTOTALS						
[illegible] Ameritech												
Illinois	[illegible] [illegible] [illegible] $11.40	[illegible]	na	na	[illegible]	[illegible]	[illegible]	$1.34	[illegible]	$0.00	$0.08	[illegible]
Indiana	[illegible] [illegible] [illegible] $8.99	$7.98	$0.000000	$0.000000	[illegible]	[illegible]	$0.01	[illegible]	$0.23	$0.00	$0.01	[illegible]
Michigan	$10.16 $8.47 $8.73 $12.54	[illegible]	[illegible]	[illegible]	$0.000548	[illegible]	[illegible]	[illegible]	$0.58	$0.00	$0.07	1,869
Ohio	[illegible] $5.93 [illegible] [illegible]	$4.63	[illegible]	[illegible]	$0.000800	$0.33	[illegible]	[illegible]	$0.96	$0.00	[illegible]	[illegible]
Wisconsin	$10.90 $10.90 $10.90	[illegible]	[illegible]	[illegible]	[illegible]	$0.33	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible] Pacific Bell												
California	[illegible] $8.18 [illegible] [illegible]	$0.88	[illegible]	[illegible]	[illegible]	$0.00	$0.00	[illegible]	[illegible]	[illegible]	$0.08	[illegible]
Nevada	[illegible] [illegible] [illegible] [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$0.00	$0.00	[illegible]	[illegible]	$0.00	$0.08	[illegible]
[illegible] Southwestern Bell												
Arkansas	[illegible] [illegible] [illegible] [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$1.06	[illegible]	$0.46	$0.44	$0.00	[illegible]	[illegible]
Kansas	[illegible] [illegible] [illegible] [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$0.46	[illegible]	$0.00	[illegible]	[illegible]
Missouri	[illegible] [illegible] [illegible] $19.74 [illegible]	[illegible]	[illegible]	[illegible]	$0.000446	$0.00	$0.00	[illegible]	$0.56	$0.00	[illegible]	[illegible]
Oklahoma	[illegible] [illegible] [illegible] [illegible]	[illegible]	[illegible]	[illegible]	$0.000489	$1.06	[illegible]	[illegible]	$0.64	$0.00	[illegible]	[illegible]
Texas	[illegible] [illegible] [illegible] [illegible]	[illegible]	[illegible]	[illegible]	$0.000299	$1.06	$0.96	$0.42	$0.38	$0.00	[illegible]	[illegible]

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports, CCMI estimates

EXHIBIT [illegible] RATE COMPARISON MATRIX SUMMARY – VER[illegible]ON

STATE	DENSITY ZONES	ACCESS LINES (000s)	% of TOTAL ACCESS LINES	LOOP RATE (per month)	TOTAL SWITCHING AND TRANSPORT (per month) Assumes FLEL originating minutes	TOTAL SWITCHING AND TRANSPORT (per month) Assumes DEM minutes	ALL OTHER (per month) Assumes FLEL originating minutes	ALL OTHER (per month) Assumes DEM minutes	FLEL UNEP ORIGINATING AND TERMINATING Assumes FLEL originating minutes	FLEL UNEP ORIGINATING AND TERMINATING Assumes DEM minutes	MAY 2002 FLEL UNEP ORIGINATING AND TERMINATING Assumes DEM minutes
				KEY INPUT	SUBTOTALS				TOTALS		
LEC – NYNEX											
Maine	Avg	[illegible]	[illegible]	$16.18	[illegible]	[illegible]	$0.18	$0.1[illegible]	$2[illegible]	[illegible]	$22.18
	1			$1[illegible]							
	2			$1[illegible]							
	3			$18.[illegible]							
Massachusetts	Avg	1,589	10%	$13.98	$12.9[illegible]	$10.26	$0.19	$0.18	$28.08	[illegible]	[illegible]
	1			$7.8[illegible]							
	2			$1[illegible]							
	3			$16.3[illegible]							
	4			$20.0[illegible]							
New Hampshire	Avg	82[illegible]	[illegible]	$18.10	$7.2[illegible]	$6.03	$0.16	$0.38	[illegible]	$24.51	$29.[illegible]
	1			$1[illegible].9[illegible]							
	2			$16.03							
	3			$[illegible].00							
New York	Avg	[illegible]	[illegible]	$1[illegible].19	$6.4[illegible]	[illegible]	$0.08	$0.08	$1[illegible].98	$1[illegible]	$17.1[illegible]
	1			[illegible]							
	2			$1[illegible]							
	3			[illegible]							
Rhode Island	Avg	68[illegible]	[illegible]	$13.9[illegible]	$6.56	[illegible]	$0.0[illegible]	$0.03	[illegible]	[illegible]	[illegible]
	1			$1[illegible].19							
	2			$15.[illegible]							
	3			$19.1[illegible]							
Vermont	Avg	[illegible]	[illegible]	$1[illegible]	$1[illegible]	$10.[illegible]	$0.0[illegible]	$0.03	$[illegible].16	$[illegible].99	$[illegible].09
	1			[illegible]							
	2			$[illegible]							
	3			$21.6[illegible]							
LEC – BELL ATLANTIC											
DC		[illegible]	[illegible]	$10.8	$9.9[illegible]	$6.0[illegible]	$0.00	$0.00	$20.7[illegible]	$16.8[illegible]	$16.83
Delaware	Avg	[illegible]	[illegible]	$1[illegible]	$9.68	$8.09	$0.69	$0.66	[illegible]	$20.8[illegible]	$20.3[illegible]
	1			$10.[illegible]							
	2			$1[illegible]							
	3			$16.[illegible]							
Maryland	Avg	[illegible]	[illegible]	$1[illegible]	$13.1[illegible]	[illegible]	$0.76	$0.[illegible]	[illegible]	[illegible]	$19.[illegible]
	1			$1[illegible]							
	2			$1[illegible].8[illegible]							
	3			$[illegible].96							
	4			$18.[illegible]							
New Jersey	Avg	[illegible]	[illegible]	$9.[illegible]	$7.53	[illegible]	$0.10	$0.0[illegible]	$1[illegible].15	$15.11	$15.11
	1			$8.1[illegible]							
	2			$9.[illegible]							
	3			$10.9[illegible]							
Pennsylvania	Avg	[illegible]	[illegible]	$13.82	$6.49	$5.[illegible]	$0.20	$0.1[illegible]	$20.50	$19.[illegible]	$19.36
	1			$10.[illegible]							
	2			$1[illegible].00							
	3			$1[illegible].00							
	4			$16.[illegible]							
Virginia	Avg	[illegible]	[illegible]	$13.76	$9.56	[illegible]	$0.5[illegible]	$0.5[illegible]	$[illegible].86	[illegible]	$[illegible].68
	1			$10.[illegible]							
	2			$16.4[illegible]							
	3			$29.40							
West Virginia	Avg	[illegible]	[illegible]	$[illegible].58	$20.82	$19.3[illegible]	$0.13	$0.1[illegible]	$[illegible]	[illegible]	[illegible]
	1			$14.19							
	2			$22.0[illegible]							
	3			$11.44							

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports, CCMI estimates

[illegible] COMPARISON MATRIX SUMMARY – VERIZON

STATE	LOOP RATE (per month)	PORT RATE (per month)	Local originating SWITCHING (per MOU)	Local terminating SWITCHING (per MOU)	OTHER SWITCHING AND TRANSPORT (per MOU)	DUF (per month)	DUF (per month)	Other Switching and Transport (per month)	Other Switching and Transport (per month)	FEATURE COST (per month)	AMORTIZED NRC (per month)	TOTAL DEM (per line, per month)
						Assumes EEL originating minutes	Assumes DEM minutes	Assumes EEL originating minutes	Assumes DEM minutes			
	KEY INPUTS					SUBTOTALS						
EEL - NYNEX												
Maine	$16.18 $11.44 $13.47 $18.75	$0.91	$0.001680	$0.001680	$0.001579	$0.01	$0.03	$2.16	$1.64	$0.00	$0.33	3.831
Massachusetts	$11.98 $7.53 $11.11 $16.17 $20.03	$2.00	$0.003332	$0.003332	$0.001510	$0.04	$0.03	$2.17	$1.65	$0.00	$0.35	3.830
New Hampshire	$18.30 $11.97 $16.01 $25.00	$0.71	$0.002064	$0.002064	$0.000853	$0.33	$0.35	$1.20	$0.98	$0.70	$0.03	2.007
New York	$13.39 $7.70 $11.31 $15.51	$2.57	$0.001117	$0.001111	$0.000578	$0.00	$0.00	$0.82	$0.63	$0.23	$0.08	1.910
Rhode Island	$13.93 $11.19 $15.44 $19.13	$1.86	$0.001358	$0.001127	$0.000853	$0.01	$0.03	$1.20	$0.98	$0.37	$0.00	2.000
Vermont	$11.11 $7.27 $8.35 $21.63	$1.03	$0.003003	$0.003003	$0.001278	$0.01	$0.03	$1.73	$1.11	$0.06	$0.00	2.009
EEL - BELL ATLANTIC												
DC	$10.81	$1.35	$0.003000	$0.003000	$0.000696	$0.00	$0.00	$0.98	$0.52	$0.00	$0.00	1.317
Delaware	$17.05 $10.07 $13.13 $16.67	$2.23	$0.003051	$0.001922	$0.000700	$0.13	$0.10	$0.28	$0.22	$0.00	$0.56	1.913
Maryland	$13.50 $12.11 $12.85 $25.96 $18.30	$1.90	$0.003800	$0.003800	$0.000367	$0.05	$0.01	$0.51	$0.43	$1.16	$0.22	2.058
New Jersey	$9.52 $8.12 $9.59 $10.97	$0.73	$0.002233	[illegible]	$0.000161	$0.10	$0.07	$0.23	$0.16	$0.00	$0.00	1.751
Pennsylvania	$13.81 $10.25 $11.00 $11.00 $16.75	$1.90	$0.003802	$0.001615	$0.000242	$0.09	$0.07	$0.31	$0.25	$0.00	$0.11	1.299
Virginia	$13.76 $10.24 $16.15 $29.30	$1.30	$0.001129	$0.001129	$0.000162	$0.09	$0.07	$0.22	$0.17	$0.00	$0.16	1.874
West Virginia	$21.58 $14.49 $22.01 $43.33	$1.60	$0.000868	$0.000622	$0.000536	$0.13	$0.12	$0.76	$0.70	$0.00	$0.00	2.277

Source: Company Financial reports and regulatory filings including tariffs, interconnection agreements and ARMIS reports, CCMI estimates

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SBC Communications, Inc. (SBC)
Meeting with SBC CFO highlights key initiatives; no estimate or ratings change.

Analyst Comment

11:05 AM – August 22, 2002

Market Outperformer

Large-Cap Value

Price: US$28.11

United States

Stock data		Price performance	1M	3M	12M
52-week range	US$47.34-23.30	Absolute	5%	-19%	-35%
Yield	3.8%	Rel to S&P 500	-7%	-7%	-17%

Capitalization		Forecasts/valuation	2002E	2003E
Market cap	US$93.5bn	EPS*	US$2.30	US$2.30
Latest net debt/(cash)	-	GSCOPE EPS*	-	-
Free float	-	GSCOPE P/E	-	-
Shares outstanding	3325mn	* May differ from US GAAP		

SBC considers fixing the UNE-P mess, as a prime corporate objective. Delayed LD entry in key locations, combined with the lowest UNE-P rates in the country, have uniquely exposed SBC to profit-eroding share loss. Despite this, SBC's CFO Randall Stephenson still sees stable cash flows through aggressive cost cutting, combined with the ability to maintain trends in share repurchases and dividend hikes. Consolidation in wireless is another key objective of SBC. Acknowledging the proliferation of conversations among wireless carriers, Stephenson indicated all talks are still preliminary. In the meantime Cingular is raising prices, sacrificing sub growth, and looking to improve profits.

Full details

WHAT TO DO WITH THE STOCK? We continue our cautious view of telecom, although recent stock price declines make us somewhat less cautious.
Within the group the Bells and rural telcos should provide the best returns. And, within the Bells, we continue to view Verizon as the best choice right now. As management indicates, share loss to UNE-P is going to be quite damaging to SBC. And we believe it will suffer the greatest consequences of this phenomenon among the three Bells. Thus, the valuation premium that SBC trades at relative to Verizon on P/E, EV/EBITDA, and dividend yield is probably not sustainable over the next six months. We continue to use our current EPS estimates of $2.30 for this year and next.

UNE-P A BIG PROBLEM WITHOUT LD. SBC has been the most vocal critic of UNE-P, and is working hard to raise prices and diminish the negative effect. In the absence of pervasive long distance approval, UNE-P has been and will continue to be very damaging to SBC. With LD approval in the Ameritech region not likely until the middle or second half of '03, and California not likely until yearend '02, SBC stands quite exposed at the moment. However, we should not extrapolate the SBC experience uniformly to the other RBOCs. No others face the unique combination of low priced UNE-P, high residential rates (in the Ameritech region), big concentrated industrial states, and no LD capability. Thus, we don't see Verizon in particular, and BellSouth to a lesser degree has having the same degree of exposure. So, yes, if an ILEC loses a customer to UNE-P it's a big hit to the bottom line – but it has to lose the customer for the hit to be taken.
And in our view VZ and BLS are likely to be able to offset this materially better than SBC over the next year. It should be noted that SBC has been enjoying these same benefits share retention in its states where it has long distance approval. SBC intends to file cost studies in key jurisdictions, using the regulatory path as one attempt at raising rates.
In addition, it continues to try to use bundling as aggressively as possible to offset share loss.

WIRELESS CONSOLIDATION A KEY OBJECTIVE. Newspaper reports have

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exaggerated the speed of wireless consolidation and the progress that has been made to date However the desirability of getting a deal done is obvious. and the company acknowledged active conversations. Mr. Stephenson noted that of the two options for deals AWE presents less dilution but greater regulatory and integration hurdles. Voicestream presents higher dilution but far easier regulatory approval and integration. Furthermore, similar to press accounts he indicated a deal for Voicestream may be impractical without taking in DT as an equity participant (i.e. no all-cash deal.) And, importantly, SBC is open to that possibility.

WIRELESS PRICE HIKES, DESPITE SLOWER SUB GROWTH. The healing effects of wireless mergers are not nearly upon us yet. In the meantime, Cingular is taking steps to "heal thyself." The price hikes are geared to boost profitability, even as it sacrifices sub growth. The particular increase in national plan rates announced this week are geared to both reduce off-network roaming costs and slow down the consumption of TDMA network capacity. SBC and BLS are fully expecting their joint venture to experience low to no sub growth as a result of these actions as well as the customer churn that will be stimulated by the WorldCom reseller shift.

CAPEX TO REVENUE SHOULD BE NO HIGHER THAN 15%, AND WILL BE LOWER ABSENT GROWTH. There is a broad effort to cut capex in both wireline and wireless operations. In wireline Stephenson indicated that current thinking is that capex to sales should be no higher than 15% and that in the current environment it should be no higher than 13%, and yet it is. Thus, further capex cuts should occur. In our view, if demand recovery continues to falter it would not be surprising to see capex to sales fall below the 13% rate, as it has in other countries. On the wireless side, capex cuts are also anticipated. In our view, slower capex spending in wireless is further supported by the prospects of industry consolidation.

COST REDUCTIONS KEY TO MAINTAINING EARNINGS AND BOOSTING MARGINS. SBC sees the margin differential between it and VZ and BLS as indicating an opportunity for further cost cutting. Pointing to opportunities in consolidating call centers, raising efficiencies in network operations and generally trimming overhead costs. Stephenson is focused and confident in using these steps to help improve margins in the face of share loss.

CALIFORNIA DSL EXPERIENCE GIVES CONFIDENCE IN LONG TERM POTENTIAL. In California, SBC is enjoying the benefits of scale DSL operations, having achieved about 10% penetration so far. As a result, operations are already EBITDA positive and on the trajectory to reach SBC's targeted hurdle rate.
The steps that got California to scale include: an effective self-installation program, low help desk costs; effective churn control (down towards 2-3%) and effective marketing against the cable operators. SBC believes that mass market deployment of DSL will occur, and that tiered offerings are one step in getting there. This will allow lower monthly prices for lower speeds, but should be able to maintain an average monthly price of approximately $40. This is a little higher than our long term estimate but directionally our models look at the market in the same way. Due to the absence of long distance approval in California and the Ameritech states SBC will continue to try to bundle DSL as a way of offsetting share loss indicating that churn falls 75% for those customers taking DSL on top of their local service.

BLS: US$ 25.99, SBC: US$ 28.11, VZ: US$ 32.35

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09:22am EDT 22-Aug-02 Legg Mason (Levin, Blair(202)778-1595) Q T VZ BLS SBC Q.N
Bells Retrain Guns on UNE-P, but Quick Kill Unlikely part 1

Legg Mason Wood Walker, Inc.

Industry Update
August 22, 2002

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Bells Retrain Guns on UNE-P, but Quick Kill Unlikely

All relevant disclosures appear on the last page of this report.

KEY POINTS:

* We believe the debate at the FCC over the future of UNE-P has surpassed the broadband debate in intensity and near-term importance for the telecom sector, as the Bells have been thrown on the defensive due to line losses to rivals.
* We believe that the Bells (SBC, BLS, VZ, Q) will have a difficult time convincing regulators to quickly eliminate the rights of local competitors to lease out Bell networks (UNE-P) at deep discounts. This is problematic for all the Bells but, in our view, is particularly problematic for SBC as its lack of long-distance progress in the Ameritech region makes it more vulnerable to UNE-P competitors. The Bells could gain some immediate relief in business markets (as well as some relief toward deregulating their broadband offerings in separate proceedings), but we doubt the FCC will eliminate UNE-P in residential markets in the near term.
* We believe the Commission is likely to establish a sunset or triggers for phasing out UNE-P. While the details of such rules are far from settled, we think the result will give key UNE-P providers, WorldCom (WCOEQ) and AT&T (T), time to continue to change the facts on the ground. The more they win new local customers, the more they increase the potential for a backlash if the phase-out dismantles the main platform for residential competition.
* Even if the FCC scraps or pares back UNE-P, many state regulators would likely try to retain it. Also, all decisions would be subject to court challenge that could take years to resolve, with the courts likely to maintain the legal status quo in the meantime.
* While the Bells will not gain immediate regulatory relief, we believe that through bundling and other marketing efforts, they can significantly reduce the negative impact of UNE-P competition.
* We believe another potential nightmare for the Bells would be if cable begins using UNE-P to accelerate its budding cable telephony offerings.

As we noted when WorldCom announced its "Neighborhood" plan, the intensified efforts by WorldCom (WCOEQ) and AT&T (T) to compete using the Bell Unbundled Network Elements Platform (UNE-P) has dramatically raised the stakes of the FCC unbundling policy debates. (See our April 23 note WCOM/MCI Bundled Phone Offer Challenges Rivals and Regulators.) The most recent Bell quarterly reports suggest that the impact of UNE-P is quickly growing. (For a discussion of the economics of UNE-P, see the report by our colleagues Daniel Zito and Brad Wilson, Cautious Long-Distance Outlook, June 27, 2002. For a state-by-state UNE pricing and sensitivity study, see attachment to VZ: Comments on RBOC Weakness, August 21, 2002, by our collegues Michael J. Balhoff and Christopher. C. King.)
The impact of UNE-P has caused the Regional Bell Operating Companies (SBC, BLS, Q, VZ) to shift their priorities in seeking regulatory relief.

While the core Bell policy thrust had been to gain deregulation of their broadband services, recent events suggest the Bells have ramped up their lobbying efforts to cripple the ability of competitors to use UNE-P to gain market share in the traditional voice market.

Some in the Bell camp have predicted the FCC will act to eliminate UNE-P in a flash cut. FCC action on UNE-P is still months away (probably 4-8 months) but our current view is that prediction is likely to prove largely inaccurate in the near term, particularly concerning the availability of UNE-P in residential markets. This note outlines some of the dynamics affecting the resolution of the UNE-P debate.

Background on UNE-P. UNE-P offers competitors an opportunity to use all the UNEs at discounted "TELRIC" (Total Element Long Run Incremental Cost) rates and to add further value-added services on top of the platform. According to an industry estimate building on a FCC survey of incumbent local exchange carriers (ILECs), of the 20-plus million lines won by long-distance companies (IXCs) and other local competitors (CLECs) as of June 2002, about 7.7 million are UNE-P based. It is the fastest growing method of competitive entry. In 2001, according to FCC data, more than 60% of the CLEC line growth was due to UNE-P, about twice the rate in 2000. T and WCOEQ are capturing most of the UNE-P line growth but other companies are responsible for about 43% of UNE-P lines.

Reasons for Increase in UNE-P Competition. While UNE-P has been available for some time, its use has ramped up significantly over the last year. In our view, this is due to two critical developments. First, numerous states have lowered wholesale UNE-P rates. Second, the Bells have achieved sufficient long-distance entry to give the IXCs the incentive to more aggressively use UNE-P to protect their existing markets.

Differing Impact on the Bells. UNE-P has had a differing impact on each of the Bells, affecting SBC and BLS more negatively in the last quarter than VZ. The reason for this difference, in our view, is that VZ's relative lead in gaining long-distance entry (with 74% of its lines already eligible) has given it the ability to bundle local and long distance in more states, providing a stronger defense against competition. As a measure of the value of long distance offerings in combating UNE-P competition, we note that SBC estimates that where it offers long distance, it doubles its winback rates. We also think that VZ's intensified strategy of bundling their landline voice services with wireless and Internet access services will provide an even stronger defense against UNE-P competitors.

We surmise that BLS will have greater success in stemming the tide of UNE-P line loss once it gains the right to offer long distance services in more states. It currently has applications pending in 5 of the remaining 7 states where it cannot offer such services. An FCC decision on these 5 is due in mid-September and we believe the prospects for approval are good.

In light of UNE-P competition, SBC's problems in advancing its Sec. 271 long-distance applications become more important to SBC's financial picture. This is particularly true in the Ameritech region and California. SBC has a large window of vulnerability in the Ameritech region where state regulators have been aggressive in providing incentives for UNE-P competition, but SBC has not made significant progress with the testing and verification required for Sec. 271 approval. In California, SBC has better prospects, as it hopes to send the FCC its long-distance application in September. Given the TELRIC price cuts just announced by the state PUC and California's size, we expect a major push by T to sign up customers before SBC gets approval to offer long distance services.

Q has some vulnerability to UNE-P, due to its lack of long-distance approval, but we expect Q to gain approval to offer long distance services in a number of states in the next several months. While Q's states are not the highest priority states for the UNE-P based competitors, we note that UNE-P competition has attracted more than 5% market share in Iowa, North Dakota, South Dakota, and Wyoming.

The Bells' Attack on UNE-P. The Bells have two basic strategies for attacking the viability of UNE-P. First, they can challenge the TELRIC discounts at both the federal and state levels in an effort to raise UNE-P rates and squeeze their competitors' margins. Verizon recently took this tact at the FCC through a letter by its General Counsel suggesting ways the agency could "clarify" TELRIC, all in ways that would have the affect of raising the price for competitors. We expect the other Bell companies to join this effort. The Bells are also likely to challenge individual state UNE pricing decisions in regulatory proceedings and in court. For example, SBC has already filed a petition to raise TELRIC rates in OH and we have heard they are considering filing a petition to do the same in Illinois, though they are waiting until after the November election, in which three of the five members of the State PUC could change. The Bells are also contemplating filing suits challenging some of the states' TELRIC decisions as an unconstitutional taking.

Second, as part of the FCC's "Triennial Review" proceding, the Bells hope to convince the FCC to remove certain elements, most notably switching, from the UNE list. Such a decision would not only raise the cost of providing services through UNE-P, it also would make UNE-P impractical for the consumer market due to the difficulty of seamlessly migrating tens of thousands of lines from the ILEC's to the competitor's switches. We note that as offering unbundled switching is specifically listed as one of the requirements for gaining long-distance entry, the legal burden of eliminating the requirement is likely to be higher.
While the Republican majority at the Commission wants to move in a deregulatory direction, we do not believe that majority has yet decided how that impulse should be channeled in revising the UNE rules. The staff is evaluating the effects of UNEs in various markets, and that analysis, particularly regarding the impact of UNE-P on investment in facilities, could swing any of the commissioners in different directions. (The review is at an early stage as the staff is currently immersed in evaluating 17 pending Sec. 271 applications.) But some of the dynamics affecting the UNE-P policy process are already apparent.

FCC Direction: Set Out Path for Gradual Elimination of UNE-P. We believe that the FCC is likely to view UNE-P as a transitional vehicle to more facilities-based competition. We also believe that the Commission views the D.C. Circuit's May 24 USTA v. FCC ruling on UNEs favoring the ILECs, as subjecting any decision to eliminate an element on a national basis to a material legal risk. In that light, we believe the Commission is likely to view its job in the Triennial Review not as deciding whether to keep or eliminate UNE-P, but rather to set forth the right balance of incentives and market signals for creating a glide path from UNE-P to facilities-based competition.
Transitional Tools: Sunsets and Triggers. There are two basic ways the Commission could act. First, it can eliminate UNE-P at a date certain (a "sunset"). While that approach provides the most market certainty, it is legally vulnerable. Critics could attack an FCC projection of future market conditions as not reflecting the requirement that competitors' should be able to gain access to network elements without which their ability to compete would be "impaired." One way to mitigate the legal risk is to provide a "soft" sunset in which the date merely creates a presumption that the FCC would act to eliminate UNE-P. While such a rule is more defensible, it provides less certainty to the market and the companies, effectively delaying the ultimate debate for another day; a day, it is worth noting, in which the composition of the Commission and the market structure of the telecom industry could be very different.

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